

Chapter 1

Entrepreneur & Entrepreneurship

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What is Entrepreneurship?

Outline

- Origin and Definitions
- Types of Entrepreneurs
- Role of Entrepreneurship
- Entrepreneurial Competences and Environment
- Creativity, Innovation and Entrepreneurship

Who Is An Entrepreneur?

- An entrepreneur is any person who **creates and develops a business idea and takes the risk of setting up an enterprise** to produce a product or service which satisfies customer needs.

- **Entrepreneurship** is the process of creating something new with value by devoting the necessary time and effort, assuming the accompanying financial, psychic, and social risks, and receiving the resulting rewards of monetary and personal satisfaction and independence.
- A process involving all the functions, activities, and actions associated with perceiving of opportunities and creation of organizations to pursue them. (Bygrave and Hofer in1891)

- Entrepreneurship is the process of identifying, developing, and **bringing a vision to life**.
  - The end result of this process is the creation of a new venture, formed under conditions of risk and considerable uncertainty.
- In almost all of the recent definitions, entrepreneurship is a behavior that includes:
  - Initiative taking
  - The organizing and reorganizing of social/economic resources
  - The acceptance of risk or failure, etc.

Types of Entrepreneurs

1) **Individual entrepreneur:**
   - Someone who started; acquired or franchised his/her own independent organization.
2) **Intrapreneur:**
   - A person who does entrepreneurial work within large organization.
   - The process by which an intrapreneur affects change is called Intrapreneurship.
3) **Entrepreneurial Organization:**

Difference between entrepreneur and Intrapreneur

Entrepreneur

- **Dependency**: He is independent in his operation
- **Raising of funds:** He himself raises funds required for the organization.
- **Risk:** Entrepreneurs bears the risk involved in the business.
- **Operation:** An entrepreneur operates from outside.
- Entrepreneurs convert the ideas into viable opportunities.
- Entrepreneurs take the profit of
  the business.

Intrapreneur

- He is dependent on the entrepreneurs i.e. owner.
- He does not raise funds for the organization.
- He does not fully bear the risk involved in the organization.
- An intrapreneur operates from inside.
- Intrapreneur takes the responsibility of creating innovation.
- He is provided with a variety of
  perquisite for his innovation.

Role of Entrepreneurship: World Practices

- Singapore (in the last 60 years)
  - Used to buy drinking water and sand from Malaysia fifty years ago
  - Now it is the leading country in the world in annual household income. $68,703VS in 2019
  - It is being visited by 15,000,000 people annually having built hotels with more than 12,000,000 bed rooms.
- South Korea (in the last 50 years) & Japan (in the last 80 years)
  - South Korea and Japan too have surpassed the world's expectation in their development having no significant natural resources

Role of Entrepreneurs in Economic Development

- **Employment Generation**:
  - Directly, self employment as an entrepreneur and indirectly by starting many industrial units which can offer jobs to millions.
- **Capital formation:**
  - Mobilizing the idle saving of the public & put it under continues transaction so as to improve the value of the capital by utilizing in a profitable way under different stages of enterprise
- **Provide Market Efficiency:**
  - Efficient means resources are distributed in an optimal way to maximize satisfaction.
- **Balanced Regional Development:**
  - Entrepreneurs setup enterprises in the smaller towns away from big cities.

- **Better standards of living:**
  - Entrepreneurs are able to produce goods at lower cost and supply quality goods at lower price to the community according to their requirements.
  - When the price of the commodities decreases, the consumers get the power to buy more goods for their satisfaction
- **Dispersal of economic power**:
  - Developing a large number of entrepreneurs helps in dispersing the economic power amongst the population by weakening the harmful effects of monopoly.
- **Creativity and innovation:**
  - An entrepreneur introduces new ideas and new

- **Economic Independence:**
  - Import substitution and export promotion results in more economic independence to the country.
- **Inspire others Towards Entrepreneurship:**
  - Employees to have a first-hand experience of getting involved in an entrepreneurial Venture.
- **Provide Diversity in Firms:**
  - Diversity in firms fosters economic development and growth

Entrepreneurial Competences & the Environment

Entrepreneurial Mindset: Who Becomes an Entrepreneur?

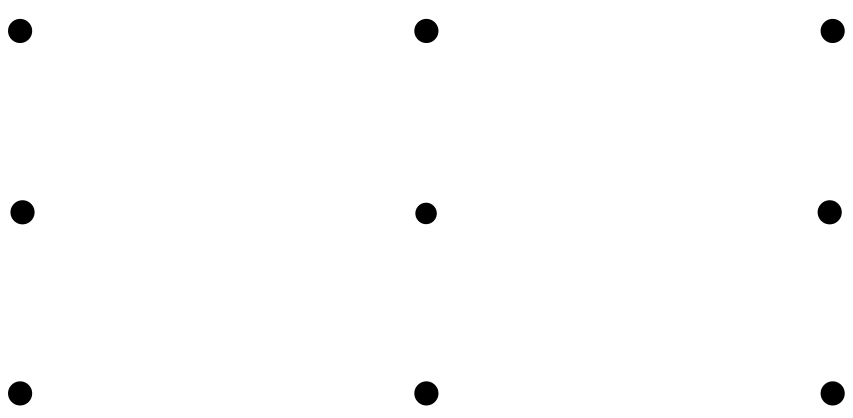
- The Young Professional
- The Inventor
- The Excluded

1. Opportunity seeking and initiative
2. Goal setting
3. Systematic planning and monitoring
4. Information seeking
5. Risk taking
6. Persistence and Commitment
7. Quality
8. Efficiency
9. Persuasion and networking
10. Independence and self-confidence

Opportunity seeking and initiative

- Does things before asked or forced by events- proactive
- Seizes opportunities to start a new business, obtain finance, equipment, land, work space or assistance etc.
- Takes action to extend the business into new areas, products or services (Continuously moves into new frontiers)

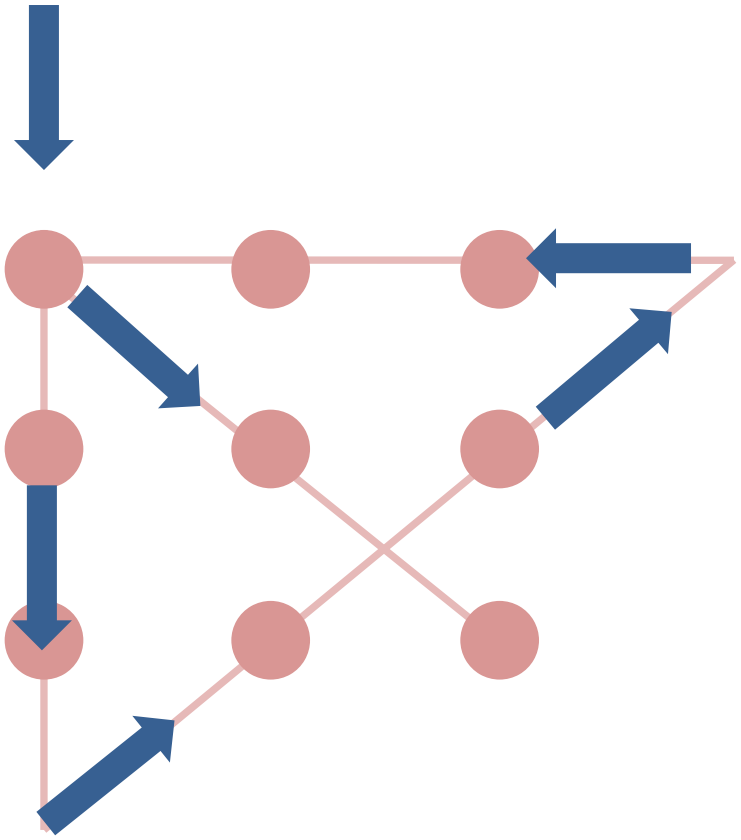
Exercises- Opportunity Seeking



- Connect the nine dots using 4 lines without uplifting your pencil

"Creativity emerges from the elimination of all unnecessary assumptions."

NINE DOTS



2.RISK TAKING

- Deliberately calculates risks and evaluates alternatives
- Takes action to reduce risks and control outcomes
- Faces challenges and moderate risks

3. Demand for efficiency and quality



Finds ways to do things better ,faster and cheaper

Acts to do things that meet or exceed standards of excellence

Develops ways / procedures that ensure the required quality

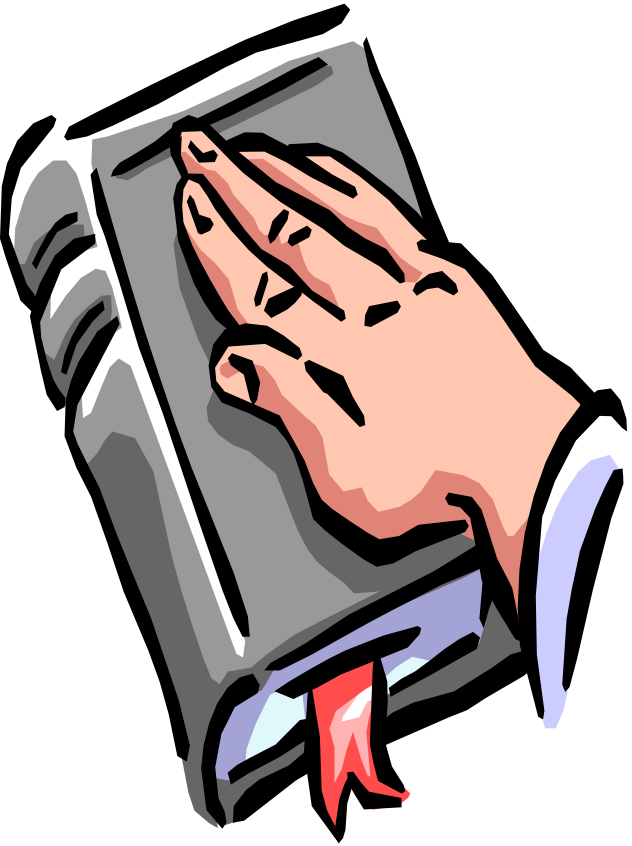
4. Persistence

Takes action in the face of a significant obstacle

- Acts repeatedly or switches to alternative strategies to meet a challenge or overcome an obstacle.
- Takes insistent actions or switches between alternatives to attain goal
- Takes personal responsibility and demonstrate proactive stance

Story of persistent people like Tomas Edison

5. Commitment to the work contract



Makes a personal sacrifice or go to
an extra mile to complete a job (honors his/her word)

Does ‘low level’ jobs to get a job done

Strives to keep customers satisfied
and places long term goodwill over
short term gain

6. Information seeking

- Seeks information from clients, suppliers, competitors and other sources

- Does research on how to provide a product or service

- Seeks the advice of experts

7. GOAL SETTING



Articulates clear and specific long range goals

Sets **SMART** short term objectives

Sets personally meaningful and challenging goals/objectives

8. Systematic planning and monitoring

- Plans by breaking large tasks into small steps with deadline
- Evaluates performance, receive feedbacks and change accordingly
- Keeps neat financial records and utilizes them for business decision

9. Persuasion and networking

- Uses deliberate strategies to influence or persuade others
- Uses key people to accomplish objectives
- Acts to develop and maintain business contacts

10. Independence and self-confidence



- Looks for freedom and autonomy from control of others/ curtailing rules
- Sticks with own judgment
- Expresses confidence to accomplish ‘difficult tasks’

Self Assessment

- PECs Activity.docx
- Analysis of PEC Results.docx

The Potential Limitations of Entrepreneurship

- Uncertainty of income
- Risk
  - Financial
  - Career
  - Family and social
  - Psychic
- Long hours and hard work
- Lower quality of life until the business gets established
- High level of stress
- Complete Responsibility

Entrepreneurial Skills

- **General Management Skills**
  - Skills required to organize the physical and financial resources needed to run the venture.
- **People Management Skills**
  - Skills required to deals with other peoples

General Management Skills

- **Strategy Skills:**
  - Ability to consider the business as a whole
- **Planning Skills:**
  - **A**bility to consider what the future might offer, how it will impact on the business and what needs to be done to prepare for it now.
- **Marketing Skills:**
  - Ability to see firm's past offerings and their features, see how they satisfy the customer's needs and why the customer finds them attractive.
- **Financial Skills:**
  - Ability to manage money, keep track of expenditure, monitor cash-flow, & assess investments in terms of their potential and their risks

People Management Skills

- **Communication Skills:**
  - Ability to use spoken and written language to express ideas and inform others.
- **Leadership Skills:**
  - An ability to inspire people to work in a specific way and to undertake the tasks that are necessary for the success of the venture
- **Motivation Skills:**
  - Ability to enthuse people and get them to give their full commitment to the tasks in hand
- **Delegation Skills:**
  - Ability to allocate tasks to different people.
- **Negotiation Skills:**
  - Ability to understand what is wanted from a situations, what is motivating others in that situation and recognize the possibilities of maximizing the outcomes for all parties.

Entrepreneurship and Environment

- Refers to the factors which influence enterprise’s operations and determine its effectiveness.
- The firm and its management have to adjust to the conditions prevalent around it
- A study of business environment offers:
  - Information about environment which is essential for successful operation of business firms.
  - Fresh avenues for the expansion of new entrepreneurial operations.
  - Knowledge to adopt a dynamic approach and maintain harmony of business operations with the environment.

Elements of Business Environment

- Business environment may be classified into two broad categories; internal and/or external

1) External:

  - Environment which is external to the business and hardly to influence independently.

- **Components include:**
  - Economic Environment
  - Legal Environment
  - Political Environment
  - Socio-Cultural Environment
  - Demographic Environment

2) Internal Environment:

- The environment which is under the control of a given organization.

- **Components include:**
  - Raw Material
  - Production/Operation
  - Finance
  - Human Resource

Creativity, Innovation & Entrepreneurship

- **Creativity:**
  - The ability to come up with new idea and to identify new and different ways of looking at a problem and opportunities.
- **Innovation:**
  - It is the implementation of new idea at the individual, group or organizational level.
  - Four distinct types of innovation:
    - **Invention** - creation of a new product, service or process
    - **Extension** - expansion of a product, service or process
    - **Duplication** - replication of an already existing product, service or process
    - **Synthesis** - the combination of existing concepts and factors into a new formulation

Areas of Innovation

- New product
- New Services
- New Production Techniques
- New Way of Delivering the Product or Service
- New Means of Informing the Customer about the Product
- New Means of Managing Relationship within the Organization
- New Ways of Managing Relationships between Organizations

- **Entrepreneurship:**
  - **Entrepreneurship = creativity + innovation**



Chapter Two: Business Planning

Chapter Contents

- Opportunity Identification & Evaluation
  - Scanning the Environment
  - Generate business idea,
- Explain the concept of business planning,
- Identify components of business plan,
- Develop business plan,

Opportunity Identification & Evaluation

- The initial stage in the entrepreneurial process is the *identification and refinement of a viable economic opportunity* that exists in the market.
- Opportunity recognition corresponds to the principal activities that take place before a business is formed or structured

Opportunity Identification and Evaluation Steps

Getting Idea

- **Learn from successful business owners**
- **Survey Your Local Business Area**
- **Publications**
- **Natural Resources**
- **Brainstorming**
- **Focus Group**

Screening

- **Macro Screening**
- **Micro Screening**
- **Other Ways (Scoring the Suitability of Business Ideas**
  Scoring the Suitability of Business Idea.docx

Implementing

- **Business Plan (Feasibility Study)**

What is a Business Plan?

- A business plan is the *blueprint* of the step-by-step procedure that would be followed to convert a business idea into a successful business venture.
- A business plan, *also called feasibility plan,* is an outline of potential issues to address and a set of guidelines to help an entrepreneur make better decisions.

The Purpose of Business Plan

- To crystallize & focus ideas
- To set objectives & give a yardstick against which to monitor performance.
- To act as a vehicle to attract any external finance needed by the business.
- Monitor the progress after implementing the plan.
- Persuade others to join the business.
- It emphasizes the strengths & recognizes the weakness of the proposed venture

What are the Main Questions that the Business Plan Should Answer?

- **Where you are now?**
- **Where do you intend to go?**
- **How do you get there?**

Essential Components of Business Plan

- Content and organization varies from industry to industry.
- All business plans should however address the following major areas and contain the following sections:

1. INTRODUCTORY CONTENTS:
   I. Cover page: Name, Address and Promoters of the business
   II. Executive Summary:
      - First impression is the last impression!
      - Generating interest in the minds of the readers is the prime motive
2. BUSINESS DESCRIPTION:
   1) The objective of the business
   2) A brief history about the past performance of the company (if it is an old company)
   3) What would be the form of ownership (whether it would be a single proprietor, partnership, or a company under company law).
   4) Descriptions of the company's products or services

3. FUNDING REQUIREMENT

- Funding Requirement
- Sources of the Required Funds
- Debt – Equity Ratios

4. THE PLANS:
Marketing, Operational, Organizational, and Financial

a) The marketing Plan

I. Existing and potential customers

II. Consumer behaviour

III. Existing and potential competitors

IV. Market Niche

V. The sales forecast

VI. Sales strategy

b) The Operational Plan

VII. Plant location

VIII. Material requirements

IX. Quality control

c) Organizational Plan

- Pattern of flow of responsibilities and duties amongst people in the organization
- Manpower plan that would be required to put life into the business
- Support Services

d) Financial Plan

i) Projected Sales

ii) Projected Cash flow statement

iii) Projected Income statement

iv) Projected Balance sheet

v) Projected Break - even Point

5. **CRITICAL RISKS**

- The investors are interested in knowing the tentative risks to evaluate the viability of the business and to measure the risks involved in the business.
- They also want to evaluate the risk mitigating plans
- 6. **APPENDIX:**
  - The appendix can provide information about the Curriculum Vitae of the owners,
  - Ownership Agreement and the like.

Sample Business Plan.docx

Why a business plan fails?

- Unrealistic Financial Projections
- Not Defining the Target Audience
- Bad Research
- No Focus on your Competition
- Hiding Your Weaknesses
- Including Too Much Information

Assignment

ASSIGNMENT (20%)

To be done in Individually

- There are numerous local products and services that have potential to sell much more than are currently selling in the market. The new market may be accessed through better promotion and advertising or through different distribution methods. What successful local products, you feel, have not been distributed well in your areas. as an opportunity?

a) Using this situation as an Idea, Develop a business plan considering all elements of a business plan.

b) Note that you should follow the outline of preparing the plan and not more than 12 pages type written business plan.(Maximum score is 20%, 10 marks for the paper work, and remaining 10 marks for presentation). Copying prohibited!

CHAPTER THREE
BUSINESS FORMATION

- Chapter Outline:
  - Forms of Business Ownership
  - Role of MSEs
  - Set Up Small Scale Business
  - Failure and Success Factors of MSEs
  - Problems of Small Scale Business in Ethiopia

Forms of Business

- The three basic legal forms are:-

  A. Proprietorship,

  B. Partnership,

  C. Corporation

  Forms of Business.docx

The Definition of Small Business

- **General criteria for defining a small business suggested by Small Business Administration (SBA):**
  - **Financing** of the business is supplied by **one individual or a small group.**
  - Only in a rare case would the business have more than 15 or 20 owners.
  - Firm's operations are geographically **localized**.
  - **Compared** to the biggest firms in the industry, the business is small.
  - The number of employees in the business is usually fewer than 100.

- There are two approaches to define small business.
  1) Size criteria
  2) Economic/control criteria.

1) Size criteria

- Size refers to the scale of operation
- Some of criteria used to measure size are:
  - number of employees; (mostly used)
  - volume, and value of sales turnover,
  - asset size
  - total capital investment,
  - volume/value of production,
  - combination of these

2) Economic/Control Criteria

- Size does not always reflect the true nature of an enterprise.
- Qualitative chxs may be used to differentiate small business from other business
- The economic/control definition covers:

1. **Market Share:** Not large enough to influence the prices of national quantities of goods sold
2. **Independence**: Owner has control of the business him/herself
3. **Personalized Management:** Owner actively participates in all aspects of the management of the business, and in all major decision-making process
4. **Technology:** generally labor intensive
5. **Geographical Area of Operation**: area of operation is often local

- Generally, **small business** is a business that is:
  - privately owned and operated,
  - small number of employees, and
  - relatively low volume of sales.

Role/Importance of MSEs

- Large Employment Opportunities
- Economical Use of Capital
- Removing Regional Imbalance
- Decentralization of Economic Power
- Less Dependence on Foreign Capital
- Shorter Gestation Period
- Protection of Environment
- Facilitate Development of Large Scale Enterprises, etc…

Classification of Micro and Small Enterprises

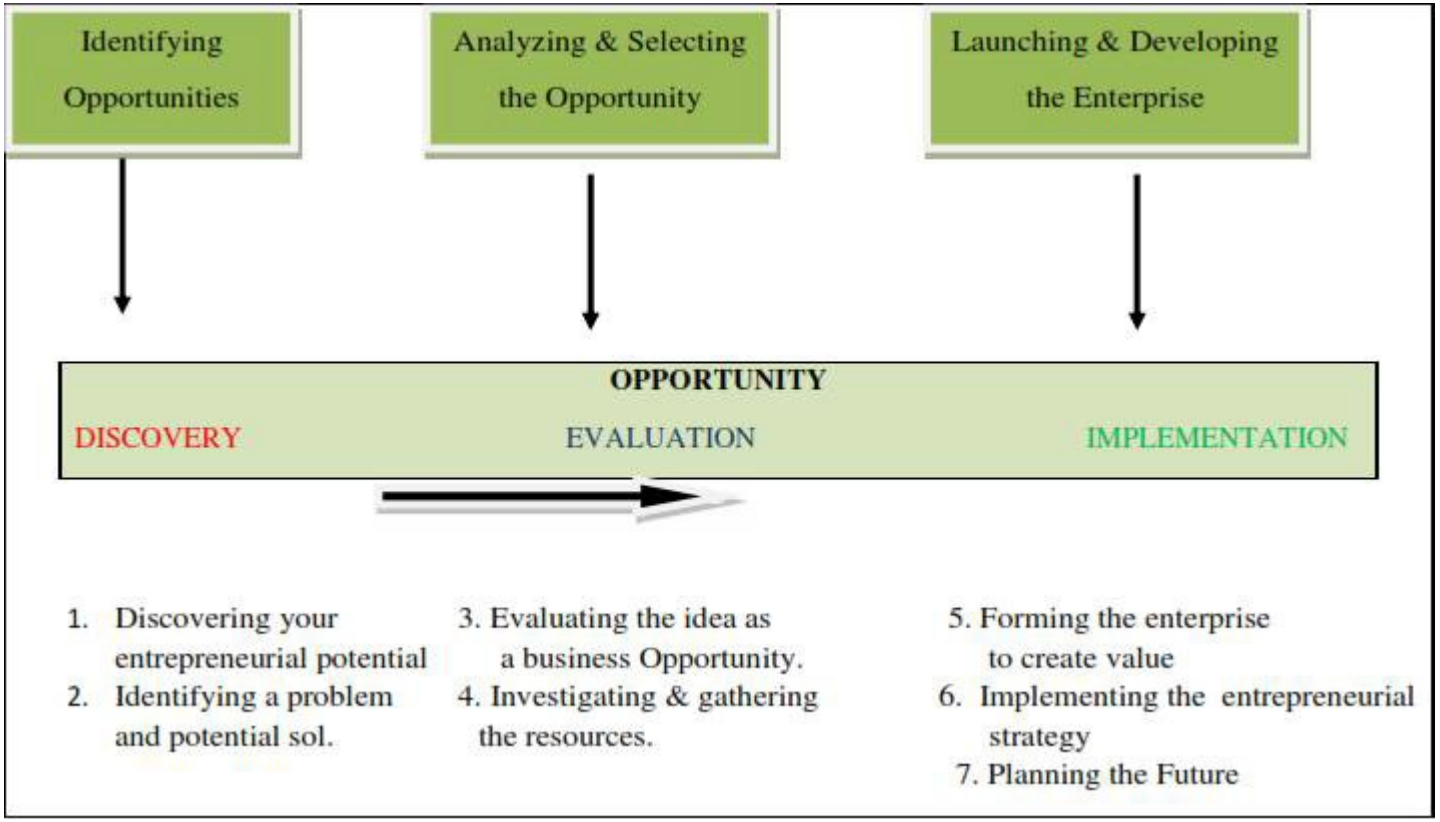
Table 3.2 Improved Definitions of MSEs

Level of the Enterprise	Sector	Human Power	Total Asset
Micro Enterprise	Industry	≤5	≤100000($6000 or E4500)
	Service	≤5	≤50,000($3000 or E2200)
Small Enterprise	Industry	6-30	≤birr 1.5 million ($9000 or E70000)
	Service	6-30	≤birr 500,000 ($30000 or E 23000)

Small Business Failure Factors

- **Poor operations management:**
  - Managers lack of technical ability to operate a small business
- **Lack of experience:**
  - Owners start businesses in industries in which they have no experience
- **Poor financial management:**
  - Owners start with little or no understanding of financial record keeping & Illegal loan practices
- **Poor credit practices:**
  - Owners often sell on credit to meet (or beat) the competition
- **Failure to plan:**
  - Lack of a strategic plan to guide the business in the long run
- **Inappropriate location:**
  - Choosing a business location without proper analysis, Investigation and planning.

Setting up Small Scale Business



Problems in the Ethiopian small business

- Small-scale businesses have not been able to contribute substantially to the economic development, particularly because of:
  - **Financial,**
  - **Production,**
  - **Marketing problems, and**
  - **Weak attitude towards self employment**

- Small-scale units do **not have easy access to the capital**.
- **Consequently, they approach traditional money lenders who charge extra high rate of interest.**
- **Small scale enterprises find it difficult to get raw materials of good quality at reasonable prices in the field of production.**
- **Techniques of production are usually outdated.**
- **Because of their poor financial position they are not able to buy new equipment, consequently their productivity suffers.**

❖Solution to prevent/reduce failure

a) Knowing the business in depth

b) Developing a solid business plan

c) Managing financial resources

d) Understanding financial statements

e) Learning to manage people effectively…

CHAPTER 4: PRODUCT/SERVICE DEVELOPMENT

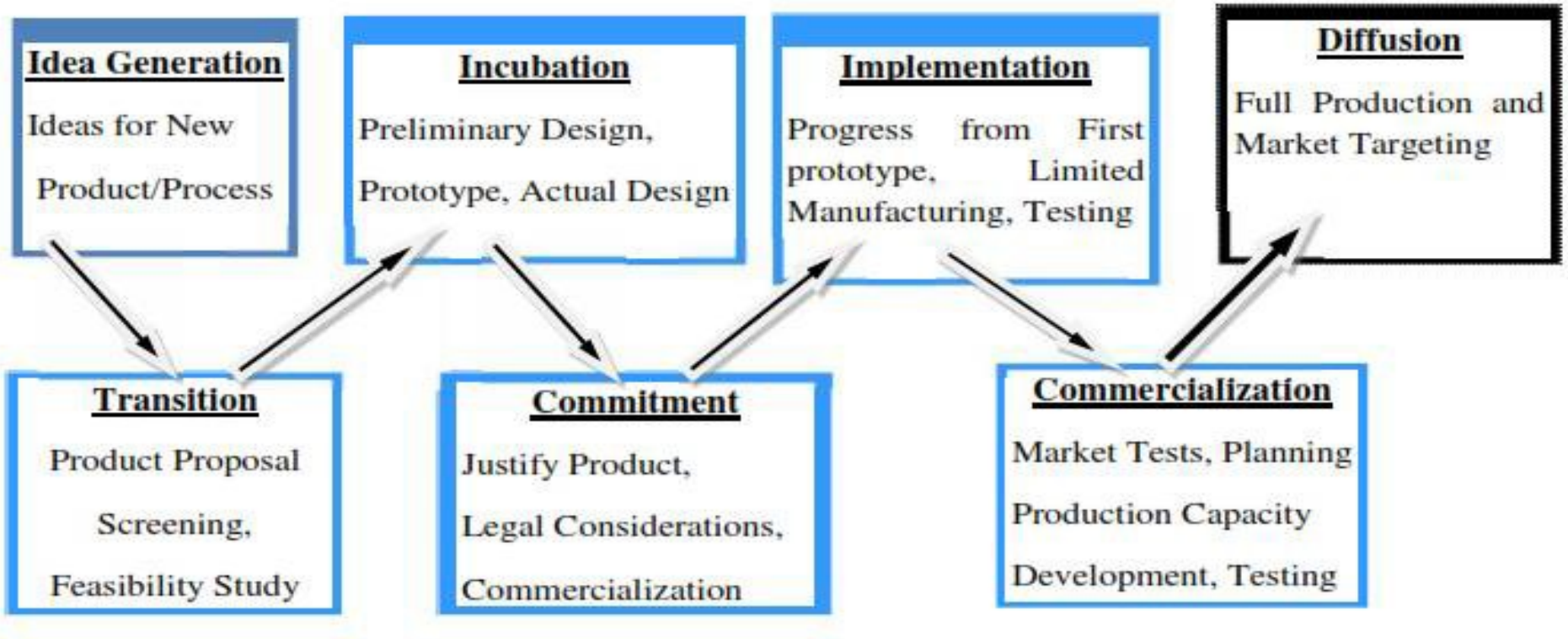
- Chapter Outline:
  - Concept of Product and Services;
  - Product/Service Development Process;
  - Intellectual Property Protection

PRODUCT AND SERVICE DEV'T

- Product/service development is process of bringing a new product or service into the market.
- It's an ongoing practice in which the entire business is looking for opportunities as new products provide growth promise to businesses that allow them to strengthen their market position.

Product/Service Development Process

- Product development is the process through which companies react to market signals, respond to changes in customer demand, adopt new technologies, foray into new areas, and ensure continuous growth.



Legal & Regulatory Frameworks for Entrepreneurs

Why legal issues to Entrepreneurs?

- To operate as a legal businessperson
- protect the business from unnecessary suits and liabilities,

Key Legal Issues for the Entrepreneur

- **INTELLECTUAL PROPERTY:**

'*Intellectual property' is a legal definition of* ***ideas, inventions, artistic works*** *and other* ***commercially viable products created out of one's own mental processes.***

- Intellectual property is protected by such legal means as:
  - Patents,
  - Copyrights, and
  - Trademarks

Patents

- A patent is a *contract between an inventor and the government* in which the government, in exchange for disclosure of the invention, *grants the inventor the exclusive right to enjoy the benefits* resulting from the possession of the patent.
- A patent *provides the owner* with ***exclusive rights to hold***, ***transfer***, use as collateral sell or ***license*** the production and sale of a product/process.

What can be Patented?

- ***Processes***: Methods of production, research, testing, analysis, technologies with new applications.
- ***Machines***: Products, instruments, physical objects.
- ***Manufactures***: Combinations of physical matter not naturally found (products).
- ***Composition of matter***: Chemical compounds, medicines, etc.

Copyrights

- Copyrights provide **exclusive rights to creative individuals** for the protection of **literary or artistic productions**.
- Copyright protects original works of authorship including literary, dramatic, musical, and artistic works, such as poetry, novels, movies, songs, computer software, and architecture.
- Remain valid for the life of the inventor ***plus a few decades(or plus 50 years)***.

Trade Marks

- These are distinctive names, marks, symbols or motto identified with a company's product or service and **registered by government offices** showing the consumers it is **originated from a unique sources**.
- **Periodically renewed** unless invalidated by cancellations, abandonment, or other technical registration/renewal issues.